

SECTION 321: FEDERAL AND STATE WITHHOLDING TAXES

1. General Comments.

- (a) The income tax laws of our Federal and State governments, as summarized by Employer's Tax Guides (Circular E for the Federal government, and Booklet A for the Hawaii State government), provide that certain sums of money be withheld by employers from the earnings of individuals subject to such laws, and that the sums so withheld be paid to the respective governments.
- (b) The amount of withholding taxes deducted from an employee's earnings is primarily determined by three factors: (1) the amount of earnings; (2) the marital status of the employee; and (3) the number of withholding exemptions claimed.
- (c) In the State of Hawaii's payroll system, a percentage method of computing income tax withholdings is used.

2. Legal Provisions. Section 4947 of the Internal Revenue Code and Section 235-61 of the Hawaii Revised Statutes provide the legal bases for the income tax withholding instructions contained in the Employer's Tax Guides referred to above.

3. Forms.

- (a) FORM W-4, EMPLOYEE'S WITHHOLDING ALLOWANCE CERTIFICATE (Federal form) and FORM HW-4, EMPLOYEE'S WITHHOLDING EXEMPTION AND STATUS CERTIFICATE (State form), are the forms required in the withholding process. They provide certain information pertinent to the computation of income tax withholdings. Refer to the Appendix for form illustration and related instructions.
- (b) Although tax withholding exemptions forms are submitted to the employing department or agency authorizing the number of withholding exemptions to be used in determining the computation of tax withholdings, the number of tax exemptions must be recorded on the payroll change schedule for payroll deduction purposes.

4. Who Prepares the Form. All employees of the State of Hawaii are required to prepare and file W-4 and HW-4 forms with their respective employing department or agency.

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5. When Forms Must be Prepared and Filed.

- (a) FORM W-4 and FORM HW-4 must be prepared and filed on or before an employee's first working day. If the employee fails to file these forms, the income taxes withheld from earnings are computed as if the employee were single and had claimed no withholding exemptions.
- (b) If the employee wishes to increase or decrease the number of exemptions claimed, or if the employee desires that an amount greater than the required withholding amount be withheld from earnings, the employee must prepare new W-4 or HW-4 forms and file them with the employee's employing department or agency. An increase in the number of exemptions may be reported at the convenience of the employee. A decrease in the number of exemptions requires, according to law, that immediate action be taken to effect the change.

6. Procedures.

- (a) The General Statutory Deduction Procedures as presented in SECTION 320: STATUTORY DEDUCTIONS are followed in processing Federal and State withholding tax exemption applications, changes, or cancellations. Exceptions to the General Statutory Deduction Procedures are described in 6(b) and (c).
- (b) Departments.
  - (1) The employee prepares one copy of the FORM W-4 and FORM HW-4 and submits them to the appropriate office in the employee's employing department or agency.
  - (2) The departmental office reviews the forms for the completeness with which they have been prepared and ensures that the social security number and name are correct.
  - (3) After all departmentally-prescribed review of the forms, the W-4s and HW-4s are recorded on SF-5s and/or payroll change schedules which are used as input documents.

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- (4) Copies of Certain FORM W-4 are sent to Central Payroll, DAGS, with a memorandum, indicating the name of the transmitting department or agency and the total count of FORM W-4 copies, no later than 10 working days after the quarter has ended, for submittal to IRS in accordance with IRC Section 31.3402(g). FORM W-4 copies are required for the following types of employees:

Employees who claim more than nine withholding exemptions; or

Employees who claim exemption from income tax withholding and for whom the employer reasonably expects wages to be usually more than \$200 a week.

- (5) The forms are then filed in the employee's departmental personnel jacket.

(c) Uniform Accounting and Reporting Branch (Accounting Division, DAGS).

- (1) The WARRANTS covering deducted Federal withholding tax and State withholding tax are received from Central Payroll at the end of each pay period.
- (2) During the year, various Federal and State forms and reports are submitted to the respective agencies in accordance with Federal and State requirements.